

**STATE OF MONTANA  
DAWSON COMMUNITY COLLEGE  
GLENDDIVE, MONTANA**

**BASIC FINANCIAL  
STATEMENTS AND SUPPLEMENTARY  
INFORMATION**

**FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

**CONDUCTED UNDER CONTRACT BY  
C H M S, P.C.  
CONTACT: TARA LEE HILL, CPA  
PHONE #: (406) 433-2092**

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
JUNE 30, 2003 AND 2004**

**TABLE OF CONTENTS**

	<u>Page</u>
Transmittal Letter.....	1
Appointive and Administrative Officials .....	2
Recommendations.....	3 - 4
Prior Audit Recommendations .....	4
Management's Discussion and Analysis .....	5 – 12
INDEPENDENT AUDITOR'S REPORT .....	13 - 14
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Assets .....	15
Statements of Revenues, Expenses, and Changes in Net Assets .....	16
Statements of Cash Flows .....	17
Notes to the Financial Statements .....	18 – 29
<b>SUPPLEMENTARY INFORMATION</b>	
Functional Classification of Operating Expenses, for the Year ended June 30, 2003 .....	30
Functional Classification of Operating Expenses, for the Year ended June 30, 2004 .....	31
Student Financial Aid Modified Statement of Cash Receipts And Disbursements, For the Year Ended June 30, 2003 .....	32
Student Financial Aid Modified Statement of Cash Receipts And Disbursements, For the Year Ended June 30, 2004 .....	33
Schedule of Expenditures – Student Financial Assistance Programs, For the Years Ended June 30, 2003 and 2004 .....	34

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
JUNE 30, 2003 AND 2004**

**TABLE OF CONTENTS**

	<u>Page</u>
Schedule of Enrollment Statistics, For the Years Ended June 30, 2003 and 2004 .....	35
Schedule Of Expenditures Of Federal Awards, For The Year Ended June 30, 2003.....	36
Schedule Of Expenditures Of Federal Awards, For The Year Ended June 30, 2004.....	37
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	38 - 39
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	40 – 41
SCHEDULE OF FINDINGS .....	42 – 44
College Reply .....	45 – 47

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

June 2005

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of Dawson Community College for the two fiscal years ended June 30, 2004.

The audit was conducted by CHMS, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat  
Legislative Auditor

04C-05

*S:\Admin\CONTRACTS\Community Colleges\DCC\04 DCC Transmittal Ltr.doc\bb*

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA**

**APPOINTEE AND ADMINISTRATIVE OFFICIALS**

**Montana Board of Regents of Higher Education**

John Mercer	Chair
Mike Foster	Vice-Chair
Richard Roehm	Regent
Mark J. Semmens	Regent
Lila Taylor	Regent
Lynn Morrison-Hamilton	Regent
Kala French	Student Regent

Judy Martz	Governor*
Linda McCulloch	Superintendent of Public Instruction*

**Office of the Commissioner of Higher Education**

Sheila Sterns	Commissioner of Higher Education
Rodger Barber	Deputy Commission for Academic And Student Affairs
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Pam Joehler	Director of Budget and Accounting
Cathy Swift	Chief Legal Counsel

**Dawson Community College Board of Trustees**

Alan Sevier	Chairperson
Jack Tidaback	Trustee
Daryl Clingingsmith	Trustee
Darrell Lordemann	Trustee
Sandra McGovern	Trustee
Gerry Anderson	Trustee
Greg Behm	Trustee

**Administration**

Dr. Terry Hetrick	President
Justin Cross	Dean of Administrative Services
Diane Dohrmann	Dean of Student Services
CJ Law	Dean of Instructional Services

\* Ex officio member of the Board of Regents of Higher Education

**DAWSON COMMUNITY COLLEGE  
YEARS ENDED JUNE 30, 2003 AND 2004**

**RECOMMENDATIONS**

**FINDING #04-01 – Cash Reconciliations**

The College did not reconcile all bank accounts and funds held outside the County Treasurer to the general ledger on a monthly basis.

**Recommendation**

The College should reconcile all bank accounts, funds held by the county treasurer and funds held outside the county treasurer to the general ledger on a monthly basis. The College should keep a subsidiary ledger of all bank accounts and investments held outside the county treasurer to reconcile to the general ledger.

**FINDING #04-02 – Capitalization Policy**

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

**Recommendation**

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

- a. Revise the minimum dollar amount for capitalization within the various property accounts.
- b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
- c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
- d. Review the detail listing of capitalized fixed assets with regard to the updated capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detail asset listing and the capital asset accounts in the College general ledger.

**FINDING #04-03 – Operating Budget**

Section 20-15-312 Montana Code Annotated requires the College to operate within a budget approved by the Board of Regents. The College's expenditures exceeded the FY03 budget approved by the Board of Regents.

**Recommendation**

We recommend that the College develop a process to monitor the budget versus actual expenditures on a timely basis.

**PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2001 and 2002 is as follows:

<u>Finding</u>	<u>Status</u>
<b>Finding #02-01 – Cash Reconciliations</b>	Not Implemented
<b>Finding #02-02 – Petty Cash</b>	Implemented
<b>Finding #02-03 - Vacation Accruals</b>	Implemented

**DAWSON COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEARS ENDING JUNE 30, 2003 AND 2004**

Dawson Community College (College) is a comprehensive, open access, publicly supported institution of higher education dedicated to serving the needs of those who seek enrichment through educational opportunities. The College exists to address individual needs, interests, and abilities while enhancing the economic, social and cultural attributes of the diverse communities it serves. The College accomplishes this purpose by providing high quality, affordable, flexible programs and services which are academically, and geographically accessible. This purpose requires a strong commitment to the teaching and learning process by a service driven philosophy in a supportive environment.

**Reading the Annual Financial Report**

**Accounting Standards**

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal years ending June 30, 2003 and 2004. Comparative numbers, where presented, are for the fiscal years ended June 30, 2003 and 2004. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 43, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will only include fiscal years 2003 and 2004.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were: (1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.



As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

### **How the Financial Statements Relate to Each Other**

The basic financial statements, referred to above, are presented using the accrual basis of accounting. The accrual basis of accounting is a method of accounting which attempts to match revenues with expenses by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash. For example, revenue would be recognized when a student registers for a class not when the student ultimately pays for that class. Amounts that are unpaid are recorded in accounts receivable. When final payment is received the balance in accounts receivable associated with the individual student will be zero.

The basic financial statements referred to above are interrelated and should be viewed as package deal. However, each of the financial statements is unique and presents the financial information according to the purpose of the individual statement. The most basic relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of College on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of activities for College throughout the fiscal year. The Statement of Cash Flows summarizes activities that generate and consume cash (illustrating net cash inflow and outflow activities) during the fiscal year.

### **Statement of Net Assets**

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2003 and 2004. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement on Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of Invested Capital Assets, Net of Related Debt. The second category is "Restricted Net Assets," which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Nets Assets consist of endowments and similar type funds

where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College's general operations. They may be used at the discretion of the College's Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

The following is a summary of the Statement of Net Assets for each fiscal year:

### Condensed Statement of Net Assets

	At 6/30/04	At 6/30/03
Total Current Assets	\$ 3,279,762	\$ 3,127,209
Total Non-Current Assets	\$ 6,036,771	\$ 6,065,366
<b>TOTAL ASSETS</b>	<b>\$ 9,316,533</b>	<b>\$ 9,192,575</b>
 Total Current Liabilities	 \$ 249,715	 \$ 173,393
Total Non-Current Liabilities	\$ 1,593,794	\$ 1,575,106
<b>TOTAL LIABILITIES</b>	<b>\$ 1,843,509</b>	<b>\$ 1,748,499</b>
 Invested in Capital, Net of Related Debt	 \$ 3,188,771	 \$ 3,399,920
Restricted-Expendable	\$ 1,742,155	\$ 1,561,761
Unrestricted	\$ 2,542,098	\$ 2,482,395
<b>TOTAL NET ASSETS</b>	<b>\$ 7,473,024</b>	<b>\$ 7,444,076</b>

Information significant to reading the Statement of Net Assets:

- The Net Assets Invested in Capital, Net of Related Debt is primarily made up of the value of buildings and land held by the College.
- Restricted-expendable Net Assets are held primarily in the grant and debt service activities of the College.
- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:

1. **Student Activity Fee** – Any change in the Student Activity fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46% to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.

2. **Library Fees** – Any change in the Library fee must be approved by the Board of Trustees, and the Board of Regents. Library fees are intended to augment, not replace, basic operating expenses of the library and may be used for:
  - a. Consumable supplies
  - b. Periodicals and holdings
  - c. Equipment and Improvements

The annual amount budgeted from Library fees is based on the anticipated revenues generated from projected annual enrollment.

Library fees are not intended for continuing personnel costs

3. **Student Building Fees** – Any change in the Student Building fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. Student Building Fees are collected specifically for the purpose of purchasing land, new construction, and making improvements to existing facilities. Use of Student Building fees requires the approval of the Associated Student Body, the Board of Trustees, and the Board of Regents.
4. **Computer Fees** – Any change in the Computer fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the College's IT/AS400 system.
5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for major renovations and repairs.
6. **Technology Fees** – Any change in the Technology fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

#### **Statement of Revenues, Expenses, and Changes in Net Assets**

The operating and nonoperating activities creating the changes in the College's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets.

The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains and losses from investment and capital assets activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission.

Nonoperating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the College's operating expenses. Therefore, the College, like most public institutions, will expect to show an operating loss.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	For Fiscal Year Ending 6/30/04	For Fiscal Year Ending 6/30/03
Operating Revenues	\$ 3,091,359	\$ 2,893,274
Operating Expenses	\$ 5,554,247	\$ 5,502,835
Operating Loss	\$ (2,462,888)	\$ (2,609,561)
Net Nonoperating Revenues/(Expenses)	\$ 2,491,836	\$ 2,124,562
<b>Income before other revenues, expenses, gains or losses</b>	<b>\$ 28,948</b>	<b>\$ (484,999)</b>
Other Expenses	\$ -	\$ -
<b>Change in Net Assets</b>	<b>\$ 28,948</b>	<b>\$ (484,999)</b>
 FY2003 Beginning Net Assets - Restated	 \$ 7,444,076	 \$ 7,929,075
Net assets - End of Year	\$ 7,473,024	\$ 7,444,076

Information regarding specific revenue and expense items is:

- **Tuition and fees:** The \$289,976 increase for fiscal year 2004 is primarily due to Student Building Fees associated with the construction of the facilities expansion project. The majority of the remaining balance is from increased enrollment in fiscal year 2004.
- **Private and Local Grants and Contracts** Federal grants and contracts: The \$241,667 decrease that occurred in fiscal 2004 was primarily the result of reduced contributions for the Outdoor Recreation Complex. This project was completed in fiscal year 2003.
- **Other Operating Revenues:** Other Operating Revenues increase in fiscal year 2004 by \$155,865. This increase was mainly due to the receipt of one time Federal Tuition Relief funding in fiscal year 2004.
- **Other Operating Expenses:** The major change in operating expenses was due to the completion of the Outdoor Recreation Complex in fiscal year 2003 and Other Operating Expenses in fiscal year 2004.

## **Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the College's cash activity during the year. Operating cash flows will always be different from the operation loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes state appropriations for the College's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities presents cash used for the acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

### **Condensed Statement of Cash Flows**

	<b>For Fiscal Year Ended 6/30/2004</b>	<b>For Fiscal Year Ended 6/30/2003</b>
Cash Provided (Used) by:		
Operating Activities	\$ (2,137,271)	\$ (2,653,962)
Noncapital Financing Activities	\$ 2,386,040	\$ 2,214,083
Capital and Related Financing Activities	\$ (153,484)	\$ (110,303)
Investing Activities	\$ 236,134	\$ 48,597
Net Increase (Decrease) in Cash	\$ 331,419	\$ (501,585)
Cash and Cash Equivalents, beginning of year	\$ 3,895,240	\$ 4,396,825
Cash and Cash Equivalents, end of year	\$ 4,226,659	\$ 3,895,240

### **Pending Economic and Financial Issues**

In the spring of 2002, the Board of Trustees appointed a fourteen-member ad hoc committee, entitled the Facilities Expansion Committee, to help identify facility needs at the College. After approximately six months of study and analysis, the committee submitted its recommendations to the Board of Trustees. The recommendations cited a

new physical education center, a new performing arts center, and the construction of a joint library/learning center complex. The only major change to the committee's recommendations was the size of the auditorium in the proposed performing arts center. The Board chose a 300-seat rather than a 500-seat facility. The Board adopted the committee's recommendations, with the above cited difference, at its meeting in August, 2002.

The original estimated cost to construct these three facilities was \$6.3 million. As a major means to acquire the funds needed for this project (the largest ever undertaken by College), the Board authorized the pursuit of a four million dollar general obligation bond campaign. The committee believed that \$4 million was the maximum amount that the taxpayers would approve. From the end of August through October of 2002, the College engaged in a major marketing and publicity campaign to get the voters of the community college district to pass a four million dollar bond issue. On November 2, 2002, the voters approved the bond issue on a vote of 1882 for and 1562 against.

November 13, 2003 was the first bid opening date for the new gymnasium and performing arts centers. The lowest base bid for the new gymnasium and performing arts center was \$5,436,000 on the initial estimate of \$4,600,000. The Board of Trustees rejected the bids based on the large disparity between estimates and the lowest actual bid.

The second round of bids was opened for consideration on June 15, 2004. The low bid of \$5,092,000 was submitted by Fisher Construction. This bid was approximately \$460,000 over the revised estimate. The bids were taken under advisement.

The review committee was directed to reevaluate the project and submit recommendations that would bring the cost of the project in line with the revised budget. On June 28, 2004 the Board reviewed and approved some of the submitted recommendations. The revised bid for the gym/performing arts center was \$4,855,102. The Board also accepted the recommendations for deferring equipment and landscaping. It was also noted that the budget for the library/learning center was based on the smaller footprint and if the larger option was preferred that the budget would have to be increased by approximately \$300,000. With the final revisions the project budget of \$6,303,000 was deemed to be in balance. The Board then approved the revised bid and let the contract.

On July 26, 2004, with the cost of the major portion of the project set by bid, the Board authorized the sale of the \$4,000,000 general obligation school building bonds (bonds). The sale of the bonds occurred on August 18, 2004. The interest rate on the bonds was projected to be 5%. At the date of sale the true interest cost on the bonds was bid at 3.99969%. This favorable rate will save local taxpayers approximately \$800,000 in interest cost over the life of the bonds.

In March of 2004 the application for a \$500,000 INTERCAP loan was requested. On June 15, 2004 the Montana Board of Investments approved the College's request for a \$500,000 INTERCAP loan. This is a ten year loan with an adjustable interest rate. The

average loan rate for the past ten years has been 4.160%. The loan will be paid from the \$7.00 per credit Student Building Fees.

In the winter of 2003, the College began the process of preparing a loan application for a \$400,000 Rural Economic Development Loan and Grant. This is a 20 year, zero interest loan. It will be serviced from the \$7.00 per credit increase in Student Building Fees. On September 10, 2004 the loan agreement and note was signed by the College and Mid-Rivers Cooperative.

Part of the financial package includes \$192,000 (60% of \$320,000) from the proceeds from the Harold Ullman Revocable Trust. The terms and conditions of the trust set aside 60% of the proceeds for building expansion projects. The Board earmarked the full 60% for this project.

In addition to the aforementioned funds, the Associated Student Body approved the use of \$758,791 in accumulated Student Building Fees. The Board also authorized the use of \$150,000 from the Incidental Fees Fund, \$100,000 from the Library Fee Fund, and \$33,000 from various other funds. Donations and pledges are the final component of the \$6,303,000 funding package.

During the first bidding process the College became aware of the requirement that domestic water pressure would have to meet State regulations and that the existing water pressure was inadequate to service the planned expansion. The College approved construction of a water pressure booster station. This project is separate from the Facilities Expansion Project and had an estimated cost of construction of \$180,000. The College submitted and was granted an \$180,000 INTERCAP loan for the construction of this project. This loan will be serviced from student fees. Recently revised estimates indicate the actual cost of construction will likely be in the \$300,000 range. The College has requested a \$60,000 budget amendment for greater than anticipated oil and gases severance taxes to help defray the potential increase. The remaining balance will be paid from other uncommitted institutional resources.

In the fall of 2002 the College initiated the Farm/Ranch Business Management program. This program is delivered on site with intensive one-on-one instruction. Since its inception the program has enjoyed strong growth. In the fall of 2004 three new sites were established, which resulted in 47 FTE. In the fall of 2005 the College is planning to establish five additional sites that could generate an additional 80 FTE. This growth has resulted in record enrollment.



**CHMS, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067  
104 Second Avenue S.W.  
Sidney, Montana 59270  
406-433-2092  
1-800-676-2467  
FAX: 406-433-2095

## INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee  
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Dawson Community College, Glendive, Montana, as of and for the years ended June 30, 2003 and 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain the audited financial statements supporting the financial activities of Dawson College Foundation, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of Dawson College Foundation, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of Dawson Community College, Glendive, Montana, as of June 30, 2003 and 2004, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

As described in Note A, the College has implemented a new financial reporting model as required by provisions of GASB Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* – an amendment of GASB Statement No. 34.

As discussed in Note A, the College has implemented GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units* – and amendment of GASB Statement No. 14.



In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements' discussion and analysis on pages 5 - 12 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Functional Classification of Operating Expenses on pages 30-31, the Schedule of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 32-33, the Schedule of Expenditures – Student Financial Assistance Programs on page 34, and the Schedule of Enrollment Statistics on page 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 36 – 37 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
CHMS, P.C.  
Certified Public Accountants

May 18, 2005

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
STATEMENTS OF NET ASSETS  
JUNE 30,**

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>Current Assets</b>		
Cash and Investments - Note C	\$ 2,709,166	\$ 2,575,210
Taxes Receivable - Note A	46,818	68,582
Tuition Receivable	48,767	27,040
Grants Receivable - Note A	198,851	255,179
Student Loan Receivable - Note D	93,419	89,608
Accounts Receivable - Note A	133,705	74,314
Inventory - Note A	78,455	82,462
Total Current Assets	<u>3,309,181</u>	<u>3,172,395</u>
<b>Noncurrent Assets</b>		
Restricted Cash and Investments - Note C	1,521,551	1,320,074
Capital Assets - Note E	8,622,842	8,610,597
Less: Accumulated Depreciation	<u>(4,107,622)</u>	<u>(3,865,305)</u>
Total Noncurrent Assets	<u>6,036,771</u>	<u>6,065,366</u>
<b>Total Assets</b>	<u>9,345,952</u>	<u>9,237,761</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	19,181	24,526
Accrued Payroll	2,776	-
Due to Other Governments	104,077	-
Deferred Revenue - Grants	6,588	40,861
Room Deposits	11,344	13,075
Due to Student Organizations	23,997	24,907
Interest Payable	46,946	38,014
Compensated Absences Payable - Note F	15,108	13,087
Current Portion of Long-Term Obligations - Note G	19,698	18,923
Total Current Liabilities	<u>249,715</u>	<u>173,393</u>
<b>Noncurrent Liabilities</b>		
Compensated Absences Payable - Note F	287,043	248,657
Noncurrent Portion of Long-Term Obligations - Note G	1,306,751	1,326,449
Total Noncurrent Liabilities	<u>1,593,794</u>	<u>1,575,106</u>
<b>Total Liabilities</b>	<u>1,843,509</u>	<u>1,748,499</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	3,188,771	3,399,920
Restricted for:		
Expendable:		
Student Loans	109,064	105,269
Debt Service	6,773	14,373
Scholarships, Research, Instruction, and Other	1,626,974	1,442,806
Unrestricted	<u>2,570,861</u>	<u>2,526,894</u>
<b>Total Net Assets</b>	<u>\$ 7,502,443</u>	<u>\$ 7,489,262</u>

See notes to the financial statements.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30,**

<b>REVENUES</b>	2004	2003
Operating Revenues		
Tuition and Fees (net of scholarship allowance of \$273,501 and \$210,067, respectively) \$	878,176	\$ 592,318
Federal Grants and Contracts	1,223,211	1,263,017
State Grants and Contracts	58,962	32,169
Private and Local Grants and Contracts	87,163	328,830
Auxiliary Activities:		
Bookstore	132,229	126,696
Dormitory	242,787	241,396
Other Operating Revenues	470,814	314,949
<b>Total Operating Revenues</b>	<b>3,093,342</b>	<b>2,899,375</b>
<b>EXPENSES</b>		
Operating Expenses		
Salaries	2,131,925	2,155,079
Benefits	599,782	606,360
Travel	166,627	160,297
Supplies	217,342	162,043
Contracted Services	71,881	102,639
Postage	17,048	25,798
Rent and Lease	10,410	16,420
Repairs and Maintenance	138,751	101,110
Advertising	1,348	8,061
Telephone and Utilities	125,003	108,863
Student Support	11,384	11,629
Communications	25,615	51,179
Computer and Tech Fees	76,548	104,112
Scholarships and Grants	792,591	809,108
Equipment	177,414	217,387
Insurance	46,575	61,881
Indirect Costs	22,865	28,892
REC Complex	75,055	141,380
Items for Resale	74,215	88,628
Other Operating Expenses	525,537	280,806
Depreciation Expense	242,317	261,119
<b>Total Operating Expenses</b>	<b>5,550,233</b>	<b>5,502,791</b>
<b>Operating Loss</b>	<b>(2,456,891)</b>	<b>(2,603,416)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	72,990	99,568
State Appropriations	1,333,057	1,246,732
Local Appropriations	1,032,129	1,001,396
Realized and Unrealized Gains/Losses	163,144	(50,971)
Loss on Disposal	(36,532)	(43,248)
Interest Payments	(94,716)	(89,874)
<b>Total Nonoperating Revenues</b>	<b>2,470,072</b>	<b>2,163,603</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>13,181</b>	<b>(439,813)</b>
Net Assets, Beginning of Year	7,489,262	11,533,261
<b>Prior Period Adjustment (Note K)</b>		
GASB 35 Adjustment to Record Accumulated Depreciation	-	(3,604,186)
Beginning Net Assets, as Restated	7,489,262	7,929,075
Net Assets, End of Year	<b>\$ 7,502,443</b>	<b>\$ 7,489,262</b>

See notes to the financial statements.

**DAWSON COMMUNITY COLLEGE  
GLENDAVE, MONTANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$ 856,449	\$ 565,278
Grants and Contracts	1,391,391	1,428,487
Payments to Employees	(2,088,742)	(2,158,380)
Payments for Benefits	(599,782)	(606,360)
Payments to Suppliers	(1,018,955)	(1,340,654)
Payments for Utilities	(125,003)	(108,863)
Payments for Scholarships and Fellowships	(792,591)	(809,108)
Collection of Loans to Students	(3,811)	(7,023)
Auxiliary Enterprise Charges		
Bookstore	132,229	126,696
Dormitory	241,056	239,800
Other Receipts (Payments)	(125,498)	16,210
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(2,133,257)</b>	<b>(2,653,917)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	1,333,057	1,246,732
Local Appropriations	1,053,893	962,354
Student Organization Agency Transactions	(910)	4,996
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>2,386,040</b>	<b>2,214,082</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchases of Capital Assets	(48,776)	(5,645)
Principal Paid on Capital Debt	(18,923)	(24,055)
Interest Paid on Capital Debt	(85,785)	(80,603)
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<b>(153,484)</b>	<b>(110,303)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	72,990	99,568
Realized and Unrealized Gains/Losses	163,144	(50,971)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>236,134</b>	<b>48,597</b>
Net Increase (Decrease) in Cash and Cash Equivalents	335,433	(501,541)
Cash and Cash Equivalents, Beginning of Year	3,895,284	4,396,825
Cash and Cash Equivalents, End of Year	<u>\$ 4,230,717</u>	<u>\$ 3,895,284</u>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (2,456,891)	\$ (2,603,416)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense	242,317	261,119
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(84,929)	(40,367)
(Increase) Decrease in Grants Receivable	56,328	(225,288)
(Increase) Decrease in Inventory	4,007	(22,176)
Increase (Decrease) in Accounts Payable	(2,569)	(48,651)
Increase (Decrease) in Deferred Grant Revenue	(34,273)	29,759
Increase (Decrease) in Room Deposits	(1,731)	(1,596)
Increase (Decrease) in Compensated Absences Payable	40,407	(3,301)
Increase (Decrease) in Due to Other Governments	104,077	-
<b>Net Cash Used By Operating Activities</b>	<b><u>\$ (2,133,257)</u></b>	<b><u>\$ (2,653,917)</u></b>

See notes to the financial statements.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Dawson Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

**Reporting Entity**

Dawson Community College is a community college district which has received full accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Dawson County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

In May 2002, GASB issued Statement No. 39, *"Determining Whether Certain Organizations are Component Units, and Amendment of GASB Statement No. 14."* The College was required to adopt GASB No. 39 as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. Accordingly, the College has identified the Dawson Community College Foundation, Inc. as a component unit. We were unable to obtain the audited financial statements of the Dawson Community College Foundation, Inc., or to satisfy ourselves as to the financial activities by other auditing procedures.

**Financial Statements**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" amends Statement No. 34 to address the accounting and financial reporting issues related to public colleges and universities. Certain significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.

A change in the fund-group financial statements to an entity-wide perspective.

Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. All significant inter-entity transactions have been eliminated upon consolidation.

**Basis of Accounting**

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

**Cash and Cash Equivalents**

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

**Investments**

Investments are carried at cost, which approximates market value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

**Taxes Receivable**

The College records taxes receivable for property taxes that have been assessed but have not yet been collected. These taxes receivable are recorded as deferred revenue in the year assessed, and recorded as revenue in the year collected.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable consists primarily of student tuition and fees.

**Grants Receivable**

Grants receivable are for expenditures made on grants for which reimbursement has not been received.

**Inventories**

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method. The costs of inventory are recorded as expenditures when purchased.

**Use of Estimates**

The preparation of these general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

**Noncurrent Assets**

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

**Capital Assets**

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than \$5,000 and an useful life in excess of one year.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

	<u>Years</u>		<u>Years</u>
Buildings	50	Library	
Equipment	5 - 20	Resources	20

**Donated Services**

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

**DAWSON COMMUNITY COLLEGE  
GLENDAVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

**Net Assets**

The College's net assets are categorized as follows:

**Invested in capital assets, net of related debt** - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted, expendable** - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

**Restricted, nonexpendable** - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

**Unrestricted** - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

**Revenues**

The College has classified its revenues as either operating or nonoperating according to the following criteria:

**Operating Revenue** - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

**Nonoperating Revenue** - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.



**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Restricted Revenues**

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**NOTE B - LOCAL APPROPRIATIONS**

All property taxes are collected by the Treasurer of Dawson County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College for the years ended June 30, 2003 and 2004 were as follows:

	Number of Mills	
	Year ended 6/30/2003	Year ended 6/30/2004
Mandatory County Levy		
Voted Levy	59.17	59.07
Adult Education Levy	1.00	2.25
Retirement Fund Levy	11.75	19.61
Total	<u>71.92</u>	<u>80.93</u>

The value of one mill was \$12,388 for 2003 and \$12,410 for 2004.

**NOTE C - CASH AND INVESTMENTS**

Cash and Investments, except those identified below, are held by the Dawson County Treasurer. The Board of Trustees may invest money of the College in savings deposits, time deposits or repurchase agreements with financial institutions that are located in Montana and are insured by the FDIC, FSLIC, or NCUA. The Board of Trustees may also invest the College's money in obligations of the United States Government, or in the State Short-Term Investment Pool (S.T.I.P.).

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

Cash and Investments held by the Treasurer of Dawson County at June 30, 2003:

	Carrying Value	Fair Value	Unrealized Gain(Loss)
Invested in the County Investment Pool	\$ <u>2,561,620</u>	\$ <u>2,563,395</u>	\$ <u>1,775</u>

Cash and Investments held by the Treasurer of Dawson County at June 30, 2004:

	Carrying Value	Fair Value	Unrealized Gain(Loss)
Invested in the County Investment Pool	\$ <u>2,687,781</u>	\$ <u>2,679,759</u>	\$ <u>(8,022)</u>

The Dawson County Commissioners require 50% security on money held by the Dawson County Treasurer. The governmental entities' money is insured by the Federal Deposit Insurance Corporation (FDIC) for each "public unit" based on how the account is titled at the financial institution. The College's money invested in the county investment pool is titled in the Dawson County Treasurer's name, and therefore is not separately insured by FDIC insurance. The county government is considered to have \$100,000 FDIC insurance for demand deposits and \$100,000 FDIC insurance for time and savings deposits in each bank within the state.

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2004.

The Securities Investor Protection Corporation (SIPC) provides protection for cash and securities held in customer accounts by member broker-dealers. Protection is provided for up to \$500,000 on each customer's account, including up to \$100,000 on claims for cash (as distinct from claims for securities). SIPC does not cover declines in the market value of securities.

Cash and Investments not held by the county treasurer, with the exception of Edward Jones Investments, have been recorded at cost. The Edward Jones Investments are recorded at market. A summary of the cash and investments is as follows at June 30, 2003:

	Book Balance	Fair Value and Bank Balance
Petty Cash Accounts	\$ 7,337	\$ 7,337
Student Loan Fund Deposits	15,661	15,661
Agency Funds Cash	3,216	3,216
Cash in Bank - Loan Reserve	66,517	66,517
Investments - Edward Jones	<u>1,240,933</u>	<u>1,240,933</u>
Total	\$ <u>1,333,664</u>	\$ <u>1,333,664</u>

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2003:

Category 1 - Insured (FDIC)	\$ <u>92,731</u>
-----------------------------	------------------

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2003:

	<u>Bank Balance</u>
Category 1 - Insured (FDIC)	\$ 25,860
Category 1 - Insured (SIPC)	500,000
Category 3 - Includes bank balances and investments uncollateralized and uninsured or for which collateral has been pledged but not in the College's name	715,073
Uncategorized investments - amount invested in an external investment pool (Dawson County Investment Pool)	<u>2,563,395</u>
	<u>\$ 3,804,328</u>

The cost basis of the Edward Jones investments on June 30, 2003, was \$1,602,019. The College's books have recorded an unrealized loss on the Edward Jones investments of \$361,086 as of June 30, 2003.

Restricted cash consists of loan reserves for the Stockman Bank and USDA Rural Development Loans in the amounts of \$27,441 and \$39,076, respectively. The Edward Jones Investments of \$1,240,933 are donor restricted.

Cash and Investments not held by the county treasurer, with the exception of Edward Jones Investments, have been recorded at cost. The Edward Jones Investments are recorded at market. A summary of the cash and investments is as follows at June 30, 2004:

	<u>Book Balance</u>	<u>Fair Value and Bank Balance</u>
Petty Cash Accounts	\$ 15,350	\$ 15,350
Student Loan Fund Deposits	15,644	15,644
Agency Funds Cash	3,216	3,216
Cash in Bank - Loan Reserve	67,886	67,886
Investments - Edward Jones	<u>1,440,840</u>	<u>1,440,840</u>
Total	<u>\$ 1,542,936</u>	<u>\$ 1,542,936</u>

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

Deposits can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2004:

Category 1 - Insured (FDIC)	\$ <u>102,096</u>
-----------------------------	-------------------

Investments can be broken down into the following risk categories in accordance with GASB No. 3 as of June 30, 2004:

	<u>Bank Balance</u>
Category 1 - Insured (FDIC)	\$ 25,860
Category 1 - Insured (SIPC)	500,000
Category 3 - Includes bank balances and investments uncollateralized and uninsured or for which collateral has been pledged but not	914,980
Uncategorized investments - amount invested in an external investment pool (Dawson County Investment Pool)	<u>2,679,759</u>
	<u>\$ 4,120,599</u>

The cost basis of the Edward Jones Investments on June 30, 2004, was \$1,635,805. The College's books have recorded an unrealized loss on investments of \$194,966 as of June 30, 2004.

Restricted cash consists of loan reserves for the Stockman Bank and USDA Rural Development Loans in the amounts of \$27,648 and \$40,238, respectively. The Edward Jones Investments of \$1,440,840 are donor restricted.

**NOTE D - STUDENT LOANS RECEIVABLE**

The student loans receivable are reported net of the allowance for doubtful accounts. The allowance for doubtful accounts is \$10,500 as of June 30, 2003 and 2004.

**NOTE E - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2003, were as follows:

	<u>Balance 6/30/2002</u>	<u>Current Additions</u>	<u>Current Deletions</u>	<u>Balance 6/30/2003</u>
Land	\$ 137,518	\$ -	\$ -	\$ 137,518
Buildings	5,716,005	-	-	5,716,005
Improvements	524,188	-	-	524,188
Equipment	1,916,596	-	42,509	1,874,087
Library Inventory	353,893	5,645	739	358,799
Total	<u>8,648,200</u>	<u>5,645</u>	<u>43,248</u>	<u>8,610,597</u>

**DAWSON COMMUNITY COLLEGE  
GLENDDIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE E - CAPITAL ASSETS (CONTINUED)**

Less Accumulated Depreciation for:

Buildings	\$ 1,805,194	\$ 111,362	\$ -	\$ 1,916,556
Improvements	269,537	109,354	-	378,891
Equipment	1,349,467	17,940	-	1,367,407
Library Inventory	179,988	22,463	-	202,451
Total Accumulated Depreciation	<u>3,604,186</u>	<u>261,119</u>	<u>-</u>	<u>3,865,305</u>
Capital Assets, Net	\$ <u>5,044,014</u>	\$ <u>(255,474)</u>	\$ <u>43,248</u>	\$ <u>4,745,292</u>

Capital asset balances and activity for the year ended June 30, 2004, were as follows:

	Balance 6/30/2003	Current Additions	Current Deletions	Balance 6/30/2004
Land	\$ 137,518	\$ -	\$ -	\$ 137,518
Buildings	5,716,005	-	-	5,716,005
Improvements	524,188			524,188
Equipment	1,874,087	35,500	34,931	1,874,656
Library inventory	358,799	13,276	1,600	370,475
Total	<u>8,610,597</u>	<u>48,776</u>	<u>36,531</u>	<u>8,622,842</u>

Less Accumulated Depreciation for:

Buildings	1,916,556	111,362	-	2,027,918
Improvements	378,891	90,867		469,758
Equipment	1,367,407	18,524	-	1,385,931
Library Inventory	202,451	21,564	-	224,015
Total Accumulated Depreciation	<u>3,865,305</u>	<u>242,317</u>	<u>-</u>	<u>4,107,622</u>
Capital Assets, Net	\$ <u>4,745,292</u>	\$ <u>(193,541)</u>	\$ <u>36,531</u>	\$ <u>4,515,220</u>

**NOTE F - COMPENSATED ABSENCES PAYABLE**

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

June 30, 2003:	Balance 6/30/2002	Increase (Decrease)	Balance 6/30/2003
Vacation and Sick Leave	\$ <u>265,045</u>	\$ <u>(3,301)</u>	\$ <u>261,744</u>
June 30, 2004:	Balance 6/30/2003	Increase (Decrease)	Balance 6/30/2004
Vacation and Sick Leave	\$ <u>261,744</u>	\$ <u>40,407</u>	\$ <u>302,151</u>

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE H - RETIREMENT PLANS**

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

June 30, 2004 and June 30, 2003:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	7.47%	7.15%	14.62%
PERS	6.80%	6.90%	13.70%

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
TRS	\$ 199,288	\$ 272,681	\$ 197,613
PERS	79,960	75,489	74,092
Total	<u>\$ 279,248</u>	<u>\$ 348,170</u>	<u>\$ 308,707</u>

The State of Montana contributes .10% of the employees' wages covered by PERS, and .11% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

**NOTE I - RISK MANAGEMENT**

The College faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003 AND 2004**

**NOTE J - RELATED PARTY TRANSACTIONS**

The Dawson Community College Foundation is a private nonprofit organization with relations to Dawson Community College. As discussed in Note A, this entity is considered a component unit of Dawson Community College.

The Dawson College Foundation donates money to the College for operating expenses of the College, at the discretion of the Board of Trustees of the Dawson College Foundation. There were no significant transactions during the years ended June 30, 2003 and June 30, 2004.

**NOTE K - PRIOR PERIOD ADJUSTMENT**

In order to comply with the provisions of GASB Statement No. 34 and No. 35, there were significant prior period adjustments to the capital assets in the fiscal year ended June 30, 2003. These adjustments were to record beginning accumulated depreciation in the amount of \$3,604,186, as detailed in Note E.

**NOTE L - SUBSEQUENT EVENT**

On September 1, 2004, Dawson Community College issued general obligation bonds, Series 2004, at a purchase price of \$4,000,000 at interest rates ranging from 2.9%-4.35% maturing July 1, 2005 through 2022. The proceeds from the bonds will be used to pay a portion of the costs of designing, constructing, furnishing and equipping a library and learning center expansion project and for the construction of a new performing arts center/gymnasium. Additional funding for the construction project was obtained through a USDA loan for \$400,000, and InterCap Loans totaling \$680,000.

## SUPPLEMENTARY INFORMATION



DAWSON COMMUNITY COLLEGE  
GLENDALE, MONTANA  
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2003

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 1,080,565	\$ 289,933	\$ 638,670	\$ -	\$ -	\$ 107,059	\$ 38,852	\$ -	\$ 2,155,079
Benefits	131,230	48,116	98,424	289,289	-	24,007	15,294	-	606,360
Travel	11,972	19,907	127,398	-	-	1,020	-	-	160,297
Supplies	30,423	39,633	75,470	-	-	14,354	2,163	-	162,043
Contracted Services	29,340	20,386	52,913	-	-	-	-	-	102,639
Postage	2,053	2,383	21,362	-	-	-	-	-	25,798
Rent and Lease	7,860	1,800	6,760	-	-	-	-	-	16,420
Repairs and Maintenance	-	11,311	78	-	-	75,072	14,649	-	101,110
Advertising	-	8,061	-	-	-	-	-	-	8,061
Utilities	-	479	-	-	-	74,094	34,290	-	108,863
Student Support	-	-	11,629	-	-	-	-	-	11,629
Communications	33,018	-	7,375	-	-	-	10,786	-	51,179
Computer and Tech Fees	33,914	70,198	-	-	-	-	-	-	104,112
Scholarships and Grants	-	-	34,735	-	774,373	-	-	-	809,108
Equipment	14,629	4,900	6,694	-	-	184,277	6,887	-	217,387
Insurance	-	-	28,583	-	-	33,298	-	-	61,881
Indirect Costs	-	12,885	16,007	-	-	-	-	-	28,892
REC Complex	-	-	141,380	-	-	-	-	-	141,380
Items for Resale	-	-	-	-	-	-	88,628	-	88,628
Other	94,439	44,249	112,485	-	-	-	29,633	-	280,806
Depreciation Expense	-	-	-	-	-	-	-	261,119	261,119
Totals	\$ 1,469,443	\$ 574,241	\$ 1,379,963	\$ 289,289	\$ 774,373	\$ 513,181	\$ 241,182	\$ 261,119	\$ 5,502,791

DAWSON COMMUNITY COLLEGE  
GLENDDIVE, MONTANA  
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2004

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 1,011,190	\$ 303,998	\$ 660,381	\$ -	\$ -	\$ 113,337	\$ 43,019	\$ -	\$ 2,131,925
Benefits	110,552	49,252	156,810	249,902	-	16,010	17,256	-	599,782
Travel	14,686	16,322	134,108	-	-	1,511	-	-	166,627
Supplies	35,370	54,290	116,589	-	-	10,952	141	-	217,342
Contracted Services	16,639	27,909	27,333	-	-	-	-	-	71,881
Postage	2,053	2,053	12,942	-	-	-	-	-	17,048
Rent and Lease	8,610	1,800	-	-	-	-	-	-	10,410
Repairs and Maintenance	-	40,252	454	-	-	77,017	21,028	-	138,751
Advertising	-	1,348	-	-	-	-	-	-	1,348
Utilities	-	472	-	-	-	85,449	39,082	-	125,003
Student Support	-	-	11,384	-	-	-	-	-	11,384
Communications	10,715	-	3,754	-	-	-	11,146	-	25,615
Computer and Tech Fees	17,955	58,593	-	-	-	-	-	-	76,548
Scholarships and Grants	-	-	31,874	-	760,717	-	-	-	792,591
Equipment	-	7,496	23,293	-	-	145,479	1,146	-	177,414
Insurance	-	-	46,575	-	-	-	-	-	46,575
Indirect Costs	-	19,874	2,991	-	-	-	-	-	22,865
REC Complex	-	-	75,055	-	-	-	-	-	75,055
Items for Resale	-	-	-	-	-	-	74,215	-	74,215
Other	108,339	37,895	102,013	-	226,211	-	51,079	-	525,537
Depreciation Expense	-	-	-	-	-	-	-	242,317	242,317
Totals	\$ 1,336,109	\$ 621,554	\$ 1,405,556	\$ 249,902	\$ 986,928	\$ 449,755	\$ 258,112	\$ 242,317	\$ 5,550,233

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2003**

**STUDENT FINANCIAL AID MODIFIED STATEMENT  
OF CASH RECEIPTS AND DISBURSEMENTS**

	PELL	PERKINS	CWS	SEOG
Beginning Cash Balance	\$ 4,339	\$ 29,170	\$ 593	\$ -
Additions:				
Federal Advances	609,152	4,003	18,969	34,935
State Matching Funds	-	-	12,552	11,645
Institutional Matching Funds	-	5,705	5,440	-
Transfer from College Work Study	-	-	-	-
Interest Collected	-	1,356	-	-
Interest Investments	-	33	-	-
Principal Collected	-	1,067	-	-
Total Additions	<u>609,152</u>	<u>12,164</u>	<u>36,961</u>	<u>46,580</u>
Deductions:				
Distribution to Students	612,694	26,257	36,605	46,580
Excess Cash Paid Back	-	-	-	-
Transfer to SEOG	-	-	-	-
Administrative Expenses	-	(584)	-	-
Total Deductions	<u>612,694</u>	<u>25,673</u>	<u>36,605</u>	<u>46,580</u>
Net Change in Cash	<u>(3,542)</u>	<u>(13,509)</u>	<u>356</u>	<u>-</u>
Ending Cash Balance	<u>\$ 797</u>	<u>\$ 15,661</u>	<u>\$ 949</u>	<u>\$ -</u>

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2004**

**STUDENT FINANCIAL AID MODIFIED STATEMENT  
OF CASH RECEIPTS AND DISBURSEMENTS**

	PELL	PERKINS	CWS	SEOG
Beginning Cash Balance	\$ 797	\$ 15,661	\$ 949	\$ -
Additions:				
Federal Advances	610,003	-	18,712	34,935
Transfer from College Work Study	-	-	-	-
State Matching Funds	-	-	12,620	11,645
Institution Matching Funds	-	(4,913)	5,692	-
Interest Collected	-	2,188	-	-
Interest Investments	-	9	-	-
Principal Collected	-	26,862	-	-
Total Additions	<u>610,003</u>	<u>24,146</u>	<u>37,024</u>	<u>46,580</u>
Deductions:				
Distribution to Students	606,968	23,234	35,707	46,321
Transfer to SEOG	-	-	-	-
Administrative Expenses	-	929	-	-
Total Deductions	<u>606,968</u>	<u>24,163</u>	<u>35,707</u>	<u>46,321</u>
Net Change in Cash	<u>3,035</u>	<u>(17)</u>	<u>1,317</u>	<u>259</u>
Ending Cash Balance	<u>\$ 3,832</u>	<u>\$ 15,644</u>	<u>\$ 2,266</u>	<u>\$ 259</u>

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2004**

**SCHEDULE OF EXPENDITURES  
STUDENT FINANCIAL ASSISTANCE PROGRAMS**

	<u>2003</u>	<u>2004</u>
Perkins Loan Program		
Student Loan Advances	\$ 26,257	\$ 23,234
Administrative Cost	(584)	929
	<u>\$ 25,673</u>	<u>\$ 24,163</u>
College Work Study		
Wages	<u>\$ 36,605</u>	<u>\$ 35,707</u>
Supplemental Education Opportunity Grant Program		
Student Grants	<u>\$ 46,580</u>	<u>\$ 46,321</u>
Pell Grant Program		
Student Grants	<u>\$ 612,694</u>	<u>\$ 606,968</u>

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2004**

**SCHEDULE OF ENROLLMENT STATISTICS**

<u>Semester</u>	<b>Third Week Report</b>			<u>Total</u>
	<u>Resident</u>	<u>WUE</u>	<u>Nonresident</u>	
Summer 2002	22.00	0.33	1.80	24.13
Fall 2002**	349.20	40.73	9.73	399.67
Spring 2003**	363.97	41.60	9.93	415.50
Summer 2003	44.87	1.60	-	46.47
Fall 2003**	345.93	42.20	16.27	404.40
Spring 2004**	392.87	38.27	18.80	449.93

\*\* Totals include late starting classes allowed  
for full-time equivalent calculations.

**DAWSON COMMUNITY COLLEGE  
GLENDIVE, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expended
<b>MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 46,580
College Work Study	84.033	N/A	18,613
* Federal Family Education Loans	84.032	N/A	377,437
Pell Grant Program	84.063	N/A	615,834
Total Student Financial Aid Cluster			<u>1,058,464</u>
<u>U.S. Department of Health &amp; Human Services</u>			
Passed-Through Department of Social and Rehabilitation Services:			
ECHO -Higher Ed.	93.575	0102HIED0001	15,623
ECHO -Higher Ed.	93.575	0202HIED0001	21,882
ECHO-DPHHS	93.575	0202SPTG0008	9,723
ECHO-DPHHS	93.575	0302SPTG0008	3,704
ECHO-Mentoring	93.575	0202ment0003	12,335
ECHO-Mentoring	93.575	0302ment0003	9,573
Subtotal CFDA #93.575			<u>72,840</u>
<b>NON-MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Student Support Services	84.042	N/A	31,552
Student Support Services	84.042	N/A	221,569
Total CFDA #84.042			<u>253,121</u>
Passed-Through Office of the Commsioner of Higher Education:			
Local Application	84.048A	DCC-LAX01	<u>66,927</u>
Tech Prep	84.243A	TP01 E	<u>91,989</u>
Even Start - Family Literacy Grant	84.314B	GC048-01-Z1604	<u>19,370</u>
Passed-Through Montana Office of Public Instruction:			
Adult Basic Education	84.002	58-6502-56-02BG	<u>42,417</u>
WoRC - TANF	93.558	58-6502-53-02	<u>27,500</u>
Campus Child Care	0201A	0402sptg0022	<u>7,826</u>
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			\$ <u>1,640,454</u>

\* This program's activity is not reflected in the financial statements of this entity.

**DAWSON COMMUNITY COLLEGE  
GLEN DIVE, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expended</u>
<b>MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 34,935
College Work Study	84.033	N/A	16,803
* Federal Family Education Loans	84.032	N/A	417,243
Pell Grant Program	84.063	N/A	606,967
Total Student Financial Aid Cluster			<u>1,075,948</u>
<u>U.S. Department of Health &amp; Human Services</u>			
Passed-Through Department of Social and Rehabilitation Services:			
ECHO -Higher Ed.	93.575	0302HIED0001	14,140
ECHO -Higher Ed.	93.575	0402HIED0001	24,035
ECHO-DPHHS	93.575	0302SPTG0008	10,700
ECHO-DPHHS	93.575	0402SPTG0008	6,274
ECHO-Mentoring	93.575	0302ment0003	14,910
ECHO-Mentoring	93.575	0402ment0003	14,818
Subtotal CFDA #93.575			<u>84,877</u>
<b>NON-MAJOR PROGRAMS:</b>			
<u>U.S. Department of Education</u>			
Student Support Services	84.042	N/A	<u>222,005</u>
Passed-Through Office of the Commissioner of Higher Education:			
Local Application	84.048A	DCC-LAX01	<u>69,296</u>
Tech Prep	84.243A	TP01 E	<u>95,879</u>
Passed-Through Montana Office of Public Instruction:			
Adult Basic Education	84.002	58-6502-56-02BG	<u>52,288</u>
Campus Child Care	0201A	0402sptg0022	<u>7,045</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through MSU Extension Service Building the Farm Work Training Network	10.500	N/A	<u>33,116</u>
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			\$ <u>1,640,454</u>

\* This program's activity is not reflected in the financial statements of this entity.





**CHMS, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067  
104 Second Avenue S.W.  
Sidney, Montana 59270  
406-433-2092  
1-800-676-2467  
FAX: 406-433-2095

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Legislative Audit Committee  
of the Montana State Legislature

We have audited the basic financial statements of Dawson Community College as of and for the years ended June 30, 2003 and 2004, as listed in the table of contents and have issued our report thereon dated May 18, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Dawson Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect Dawson Community College's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs on pages 42-44 as findings #04-01 and #04-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we do not believe the reportable condition described in the accompanying schedule of findings and questioned costs on pages 44-46 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dawson Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the management of Dawson Community College in the accompanying schedule of findings on pages 42-44 as finding #04-03.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Dawson Community College's board of trustees and management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

CHMS, PC

CHMS, P.C.  
Certified Public Accountants

May 18, 2005



**CHMS, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1067  
104 Second Avenue S.W.  
Sidney, Montana 59270  
406-433-2092  
1-800-676-2467  
FAX: 406-433-2095

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Legislative Audit Committee  
of the Montana State Legislature

Compliance

We have audited the compliance of Dawson Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2003 and 2004. Dawson Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings on pages 42 – 44. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Dawson Community College's management. Our responsibility is to express an opinion on Dawson Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dawson Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Dawson Community College's compliance with those requirements.

In our opinion, Dawson Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2003 and 2004.

Internal Control Over Compliance

The management of Dawson Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Dawson Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Dawson Community College's board of trustees and management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

CHMS, PC

CHMS, P.C.  
Certified Public Accountants

May 18, 2005

**DAWSON COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS (CONTINUED)  
YEARS ENDED JUNE 30, 2003 AND 2004**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**FINDING #04-01 – Cash Reconciliations**

The College did not reconcile all bank accounts and funds held outside the County Treasurer to the general ledger on a monthly basis.

**Recommendation**

The College should reconcile all bank accounts, funds held by the county treasurer and funds held outside the county treasurer to the general ledger on a monthly basis. The College should keep a subsidiary ledger of all bank accounts and investments held outside the county treasurer to reconcile to the general ledger.

**FINDING #04-02 – Capitalization Policy**

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

**Recommendation**

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:

- a. Revise the minimum dollar amount for capitalization within the various property accounts.
- b. Prepare written guidelines for proper account classification of all routine fixed asset additions.
- c. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
- d. Review the detail listing of capitalized fixed assets with regard to the updated capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detail asset listing and the capital asset accounts in the College general ledger.

**FINDING #04-03 – Operating Budget**

Section 20-15-312 Montana Code Annotated requires the College to operate within a budget approved by the Board of Regents. The College's expenditures exceeded the FY03 budget approved by the Board of Regents.

**Recommendation**

We recommend that the College develop a process to monitor the budget versus actual expenditures on a timely basis.

### **PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2001 and 2002 is as follows:

<u>Finding</u>	<u>Status</u>
<b>Finding #02-01 – Cash Reconciliations</b>	Not Implemented
<b>Finding #02-02 – Petty Cash</b>	Implemented
<b>Finding #02-03 - Vacation Accruals</b>	Implemented

### **SECTION III – FEDERAL AWARD FINDINGS**

**NONE**

**DAWSON COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS  
YEARS ENDED JUNE 30, 2003 AND 2004**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: ..... Qualified

Internal control over financial reporting:

Material weakness identified?..... No

Reportable conditions identified not considered  
to be material weaknesses? ..... Yes

Noncompliance material to financial statements noted? ..... No

**Federal Awards**

Internal control over major programs:

Material weakness identified?..... No

Reportable conditions identified not considered  
to be material weaknesses? ..... Yes

Type of auditor’s report issued on compliance  
for major programs:..... Unqualified

Any audit findings disclosed that are required to be reported  
in accordance with Circular A-133, Section .510(a)? ..... No

Identification of major programs:

<u>CFDA Number</u>	<u>Award Year</u>	<u>Name of Federal Program</u>
84.003, 84.007, 84.032 & 84.063	02-03 & 03-04	Student Financial Aid Cluster
93.575	02-03 & 03-04	ECHO
84.048A	02-03 & 03-04	Perkins – Local Application

Dollar threshold used to distinguish between  
Type A and Type B programs:..... \$300,000

Auditee qualified as low-risk auditee? ..... No

June 30, 2005

Tara Hill  
P O BOX 1067  
104 Second Avenue SW  
Sidney MT 59270

Dear Ms. Hill:

The following is our response to the recommendations made in the 2003-2004 audit report for Dawson Community College.

**Finding #04-01 – Cash Reconciliations**

The College did not reconcile all bank accounts and funds held outside the County Treasurer to the general ledger on a monthly basis.

**Recommendation**

The College should reconcile all bank accounts, funds held by the county treasurer and funds held outside the County Treasurer to the general ledger on a monthly basis. The College should keep a subsidiary ledger of all bank accounts and investments held outside the County Treasurer to reconcile to the general ledger.

**Response**

Concur, when the athletic checking accounts were being setup and reconciled to the general ledger one account was inadvertently left out of the process. Due to a misunderstanding on the part of College personnel the credit card clearing account was not included in the general ledger. As of this writing both bank accounts have been included in the general ledger and comply with the auditor's recommendation.

**Finding #04-02 – Capitalization Policy**

The College does not follow a formal capitalization policy for fixed asset acquisitions. Formalizing the policy will create more consistent accounting treatment for purchases of fixed assets.

**Recommendation**

We suggest that the College review and update its fixed assets capitalization policy to more effectively control and account for the College's property and equipment. To accomplish this goal, we suggest the following:



- e. Revise the minimum dollar amount for capitalization within the various property accounts.
- f. Prepare written guidelines for proper account classification of all routine fixed asset additions.
- g. Formalize the policy to differentiate between maintenance and repair items and long-term improvements.
- h. Review the detail listing of capitalization policy, and remove all previously capitalized assets not meeting the capitalization threshold from the detailed asset listing and the capital asset accounts in the College general ledger.

### **Response**

According to the College's purchasing policy any item costing over \$5,000 is included in its fixed assets inventory. The previous threshold for inclusion of an item in the fixed asset inventory was \$300. The current inventory includes all items that at the time met the criteria for inclusion. Prior to this suggestion the College believed that it was not good stewardship to eliminate previously included inventory items. Furthermore, the College has included at risk items costing less than \$5,000, such as personal computers, in a subsidiary inventory list. This subsidiary inventory is an internal document that is used for tracking purposes.

Generally speaking the College concurs with the suggestions of the auditors on this matter. We will formalize the fixed assets capitalization policy in a separate document. This document will include:

- Written guidelines for proper account classification of all routine fixed asset additions
- A methodology to differentiate between maintenance and repair items and long-term improvements
- Minimum dollar amounts for capitalization of items within the various property accounts

The College is uncomfortable with removing items that are currently listed on the inventory list. The College will, after consultation with the auditors, purge the inventory list as suggested. However, the College will still maintain a subsidiary inventory list for tracking items that are considered a high level target for misappropriation.

### **Finding #02-03 – Operating Budget**

Section 20-15-312 Montana Code Annotated requires the College to operate within a budget approved by the Board of Regents. The College's expenditures exceeded the FY03 budget approved by the Board of Regents.

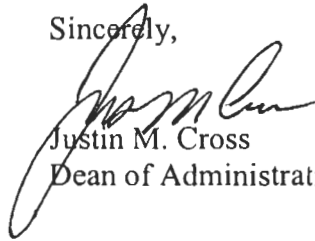
### **Recommendation**

We recommend that the College develop a process to monitor the budget versus actual expenditures on a timely basis.

**Response**

The College concurs with the auditors findings. In FY 2003 actual tuition waivers exceeded projected tuition waivers. This situation was the result of efforts by the College to bolster lagging enrollment numbers. Since early 2004 the College has been developing a tracking mechanism to more accurately project budgeted tuition waivers. We believe that through these efforts the likelihood of a recurrence of this type will be minimized.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin M. Cross", is written over the printed name.

Justin M. Cross  
Dean of Administrative Services